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## Acreage Shifts under Freedom to Farm

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## Acreage Shifts under Freedom to Farm

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The 1996 FAIR Act contains two vehicles to deliver financial support to farmers. Loan deficiency payments (LDPs) pay farmers the difference between loan rates and market prices when market prices fall below the loan rates. LDPs are paid on a per-bushel-produced basis, so they are directly tied to production amounts of each eligible crop. The other vehicle is AMTA (Agricultural Market Transition Assistance) payments. These payments arrive regardless of which crop, if any, is planted. The lack of planting requirements is why the '96 FAIR Act is also known as Freedom to Farm. (Of course, under the old programs, farmers also had complete freedom to plant what they wanted if they were willing to forego government aid.)

The decoupling of a significant portion of farm program payments from production decisions means that farmers will plant crops that yield the highest per-acre returns. With previous farm bills, farmers had an incentive to plant what they always had planted to remain eligible for crop-specific payments, and they had an incentive to increase acres of program crops to increase future payments. The result of these "coupled" payments was that traditional corn farmers had extra incentive to continue planting corn, and wheat farmers had extra incentives to continue planting wheat. Because land devoted to soybeans was not eligible for subsidies, government programs were biased against soybeans.

Figures 1, 2, and 3 show how farmers in each county of six major midwestern agricultural states

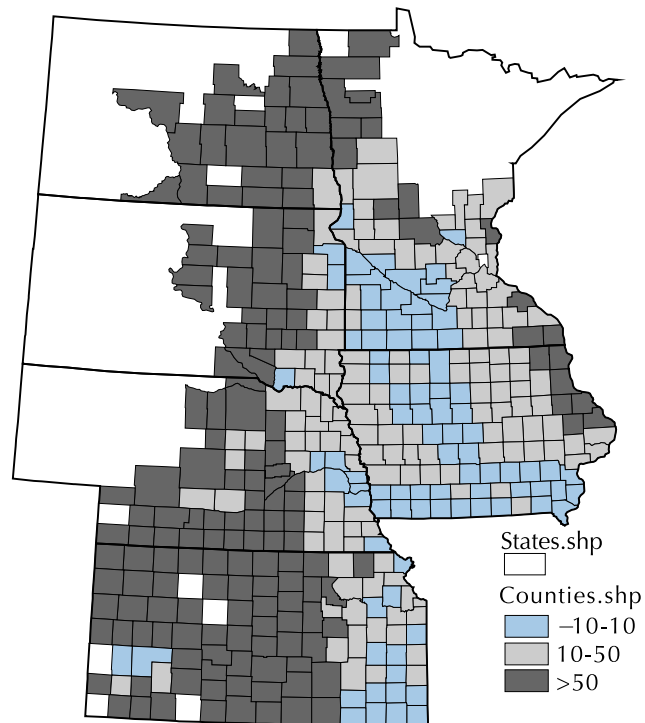


FIGURE 1. PERCENT CHANGE IN SOYBEAN PLANTED ACREAGE: 1995-1999

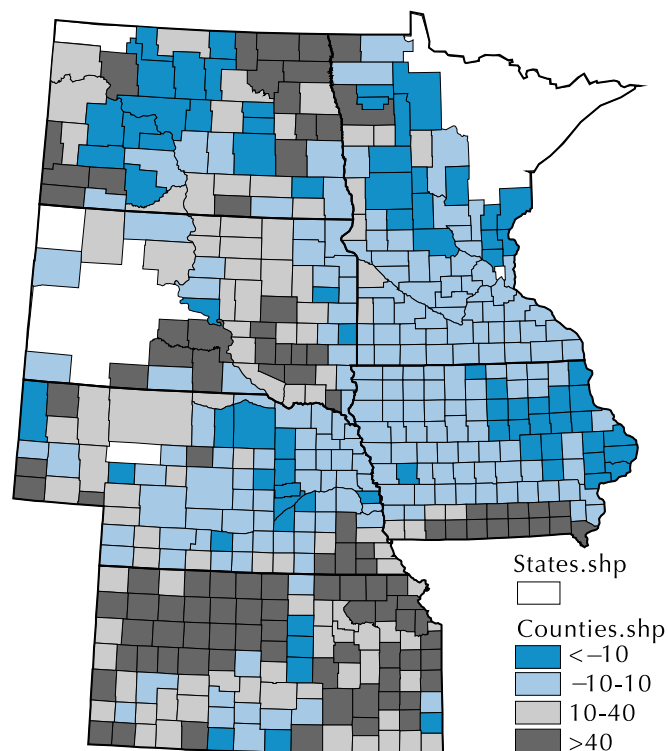
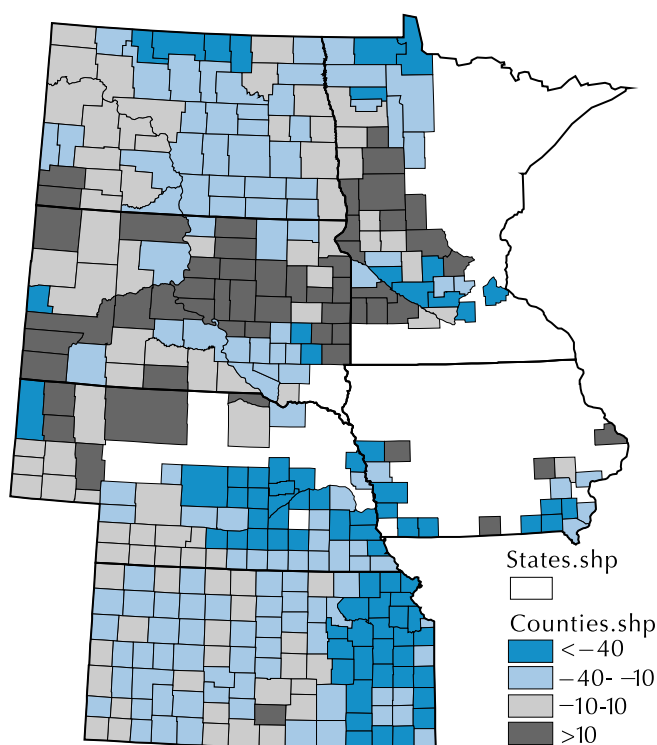
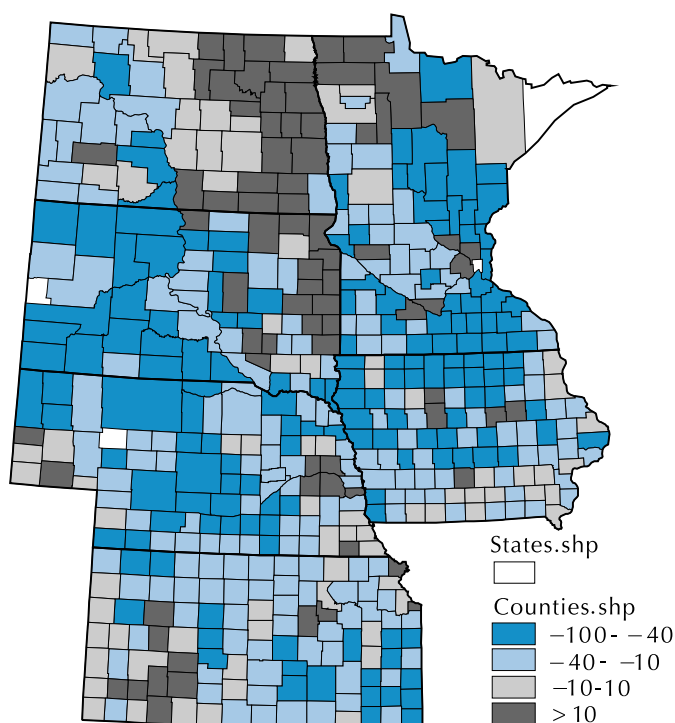


FIGURE 2. PERCENT CHANGE IN CORN PLANTED ACREAGE: 1995-1999



**FIGURE 3. PERCENT CHANGE IN WHEAT PLANTED ACREAGE: 1995–1999**



**FIGURE 4. PERCENT CHANGE IN CRP ACREAGE: 1995–1999**

(Iowa, Kansas, Nebraska, Minnesota, North Dakota and South Dakota) responded to the decreased incentive to plant corn and wheat. Figure 1 verifies that adoption of the FAIR Act beginning with the 1996 crop did indeed result in more soybeans being planted. Most counties raised significantly more soybeans in 1999 than in 1995, with the dark gray counties increasing their soybean acres by more than 50 percent over this period. Figure 2 shows that corn acreage moved west, with counties in Kansas, South Dakota, and parts of North Dakota picking up acreage, and some Iowa and Minnesota counties losing acreage. Figure 3 shows the dramatic decreases in wheat acreage in Kansas, Central Nebraska, and most of North Dakota. A comparison of Figure 3 with Figure 4, which shows the percent change in acreage enrolled in the Conservation Reserve Program (CRP), shows that loss of CRP land in South Dakota is correlated with increases in wheat acreage. Figure 4 also shows that expiration of many CRP contracts in 1996 and 1997 resulted in large decreases in program participation in the major production areas of Iowa, Minnesota, and Kansas, whereas CRP acreage increased in the Red River Valley of North Dakota and eastern South Dakota.

These large changes in acreage demonstrate the ability of farmers to change planting decisions in response to changes in economic incentives. Whether the incentives come from the market, such as reduced demand for U.S. wheat, or from the government, such as a relatively high U.S. soybean loan rate, farmers are ready to plant the crops that give them the greatest total returns. Congress needs to recognize that farmers have this flexibility if they are to avoid adverse unintended consequences of their current efforts to redesign farm policy. ♦